

# **Potential Market Impacts of the 2002 Farm Act: Current and Future**

**C. Edwin Young  
Economic Research Service  
U.S. Department of Agriculture  
[ceyoung@ers.usda.gov](mailto:ceyoung@ers.usda.gov)**

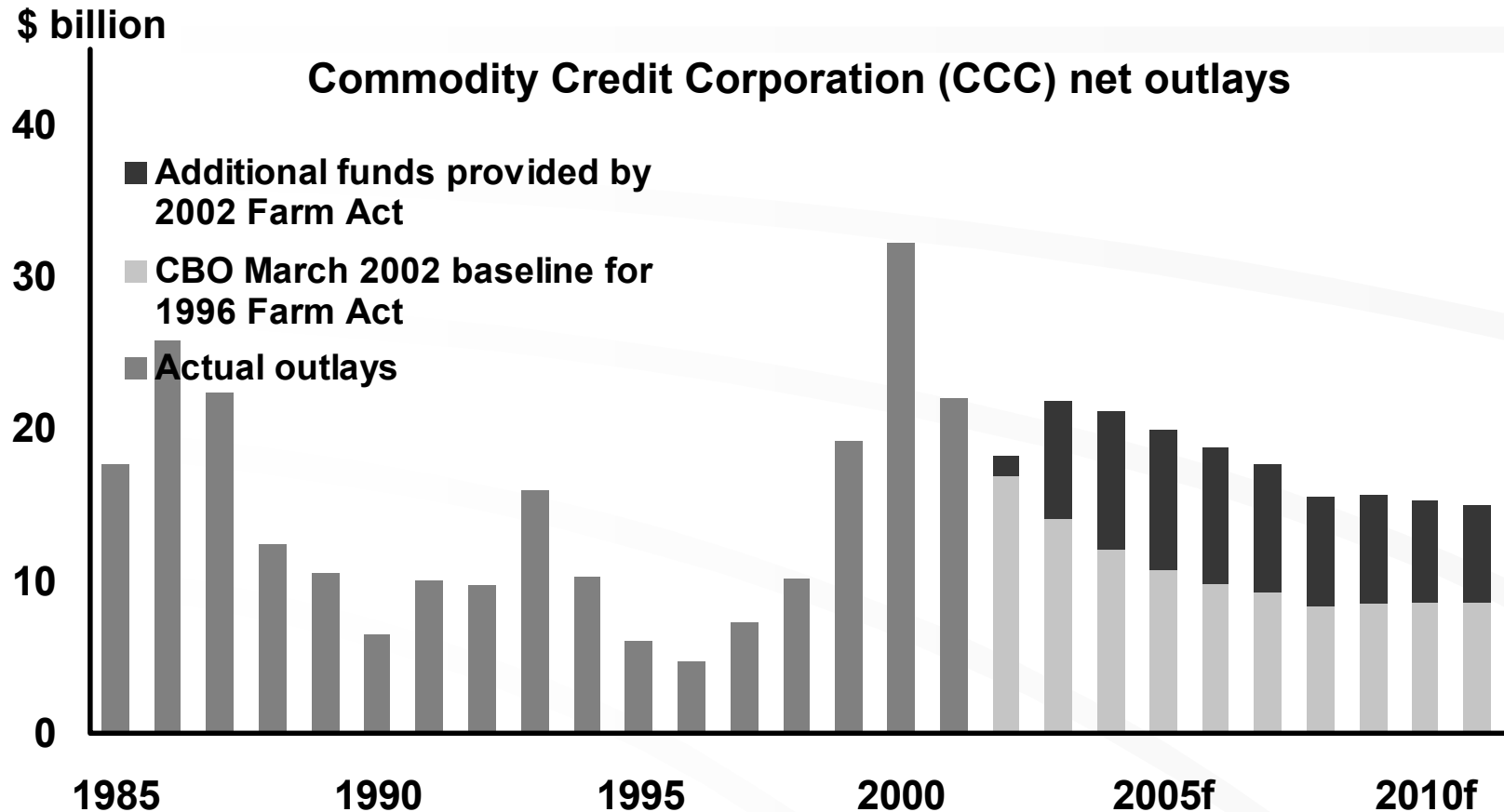
# **2002 Farm Act:**

## **Broad and Complex Legislation**

- **TITLE I: Commodity Programs**
- **TITLE II: Conservation**
- **TITLE III: Trade**
- **TITLE IV: Nutrition Programs**
- **TITLE V: Credit**
- **TITLE VI: Rural Development**
- **TITLE VII: Agricultural Research,  
Education, and Extension  
and Related Matters**
- **TITLE VIII: Forestry**
- **TITLE IX: Energy**
- **TITLE X: Miscellaneous**



# Agricultural Spending Levels Remain Close to those of Recent Years



Source: CCC Budget and Congressional Budget Office March 2002 forecasts, 2002-11.

# Sources of Impacts

- **Key commodity programs**
  - Marketing loans
  - Direct payments
  - Counter-cyclical payments
- **Conservation programs**
  - Conservation Reserve Program



# Coupled vs. Decoupled Programs

- **Coupled programs**
  - Linked to production
  - Linked to specific crops
  - Increases overall production
- **Decoupled programs**
  - Not linked to production
  - Raise total revenue more generally

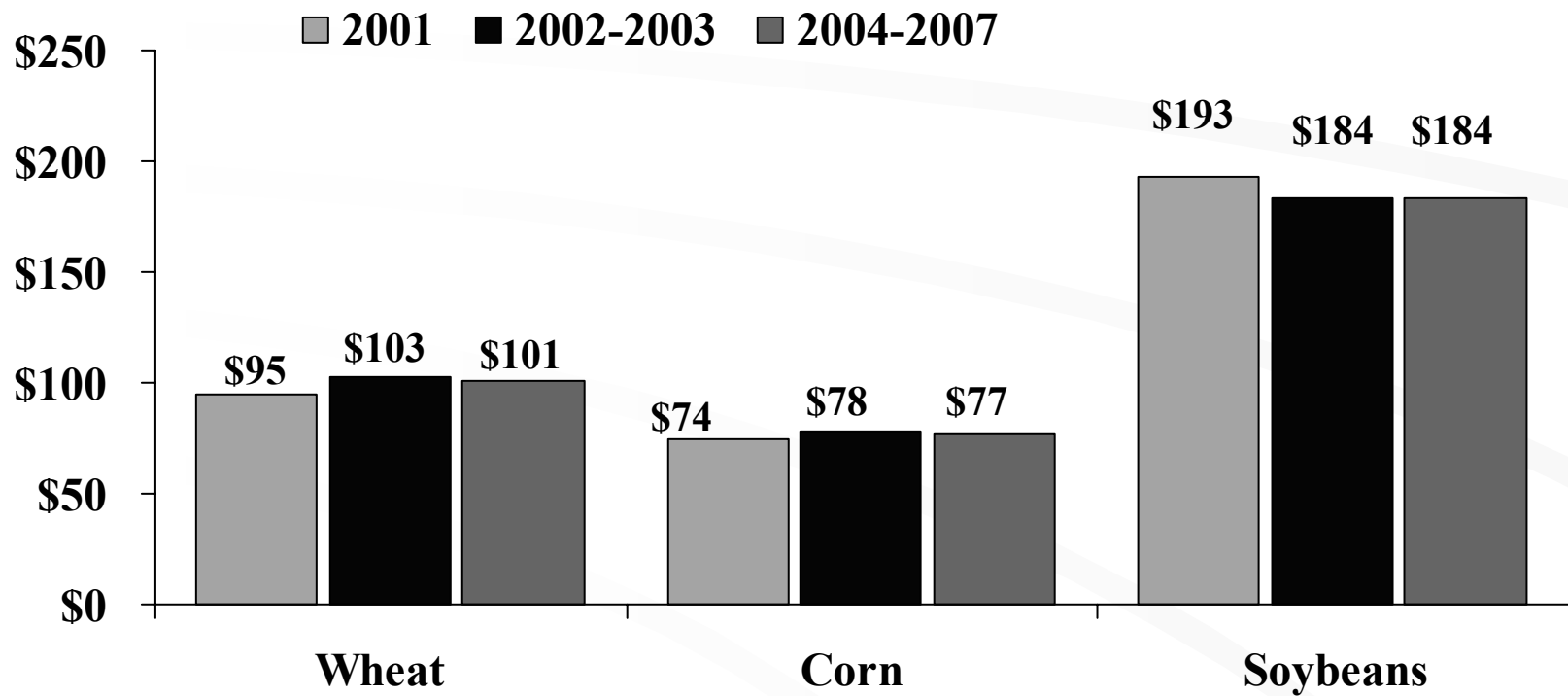


# ***Coupled: Marketing Loans***

- **Marketing loan program**
  - Paid on current production
  - Depend on market prices
  - Benefit options
    - Repay commodity loan
    - Forfeit crop to Government
    - Marketing loan gain
    - Loan deficiency payments (in lieu of loan)
- **2002 Farm Act changes**
  - Loan rates increased for most crops covered in program
  - Coverage expanded to more crops

# Marketing Loan Rates

\$ per ton



# Decoupled Payments

- **Government program payments to farmers**
  - Not linked to production
  - Production decisions based on expected market returns
- **Examples**
  - Production Flexibility Contract (PFC) payments
  - Direct payments
  - Counter-cyclical payments, mostly decoupled





# ***Fixed and Decoupled: Direct Payments***

- **Replace former Production Flexibility Contract (PFC) payments**
- **Not dependent on current production or market prices**
  - **Fixed base**
  - **Fixed payment yield**
  - **Fixed payment rates**
- **Coverage extended to more crops**

# Direct Payment Effects



- **Fixed, decoupled payments**
- **Increased wealth**
- **Increased investment**
- **Small production impacts**

# ***Mostly Decoupled: Counter-cyclical Payments***

- **New program**
- **Decoupled from current production**
  - **Fixed base**
  - **Fixed payment yield**
- **Linked to current market prices**

# Counter-cyclical Payment for Wheat <sup>1/</sup>

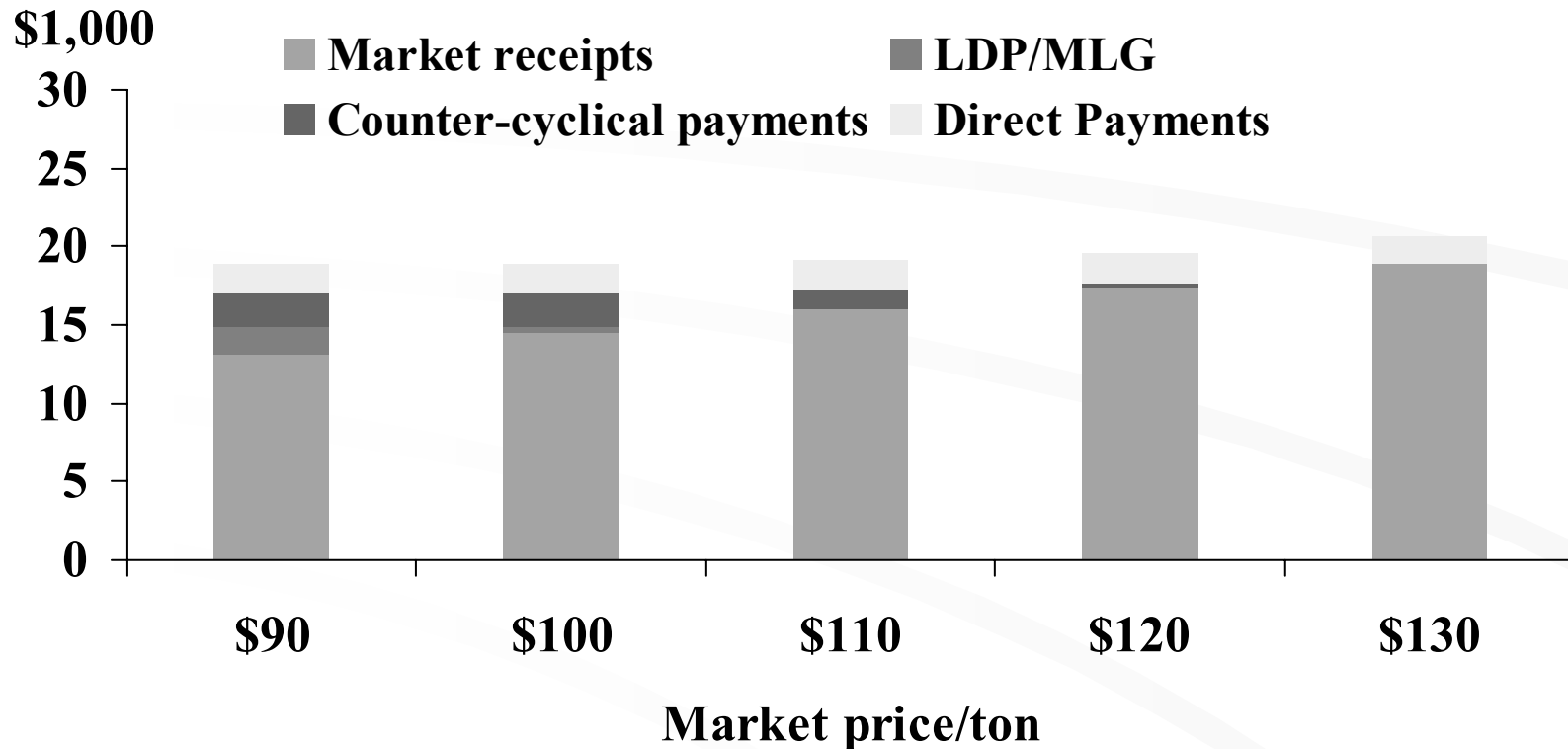
- **Payment rate<sub>wheat</sub> =**  
**(target price \$142/ton)<sub>wheat</sub>**  
**– (direct payment rate \$19/ton)<sub>wheat</sub>**  
**– (higher of commodity price or loan rate \$103/ton)<sub>wheat</sub>**
- **Counter-cyclical payment<sub>wheat</sub> =**  
**0.85 \*(base acres)<sub>wheat</sub>**  
**\* (payment yield)<sub>wheat</sub>**  
**\* (payment rate)<sub>wheat</sub>**

# Counter-cyclical Payment Effects



- **Payments are price dependent**
- **May encourage production**
- **Affects revenue risk**

# Wheat Revenues Under 2002 Farm Act



Assumes 50 hectare wheat plantings, 50 hectare wheat base, 2.9 mt/hc yield, 2.3 mt/hc direct payment yield, 2.5 mt/hc counter-cyclical payment yield.

# **Peanut Program**

- **Now similar to programs for grains and oilseeds**
- **Direct and counter-cyclical payments contingent on historical acreage (but not current production)**
  - Direct payment -- \$36/ton**
  - Target price\$495/ton**
- **Marketing loan provisions linked to current production**
  - \$355/ton**
- **Quota buy-out**
  - \$220/ton**

# **Dairy Program**

- **Milk price support program**
  - Price support purchases program
  - Dairy Export Incentive Program
- **Federal milk marketing orders**
- **New counter-cyclical payment to stabilize and enhance producer revenue**
  - Will tend to increase production
  - Full impact will be felt only by producers selling less than the 2.4-million-pound limit
  - These farmers account for less than one-third of the milk supply



# **Sugar Program**

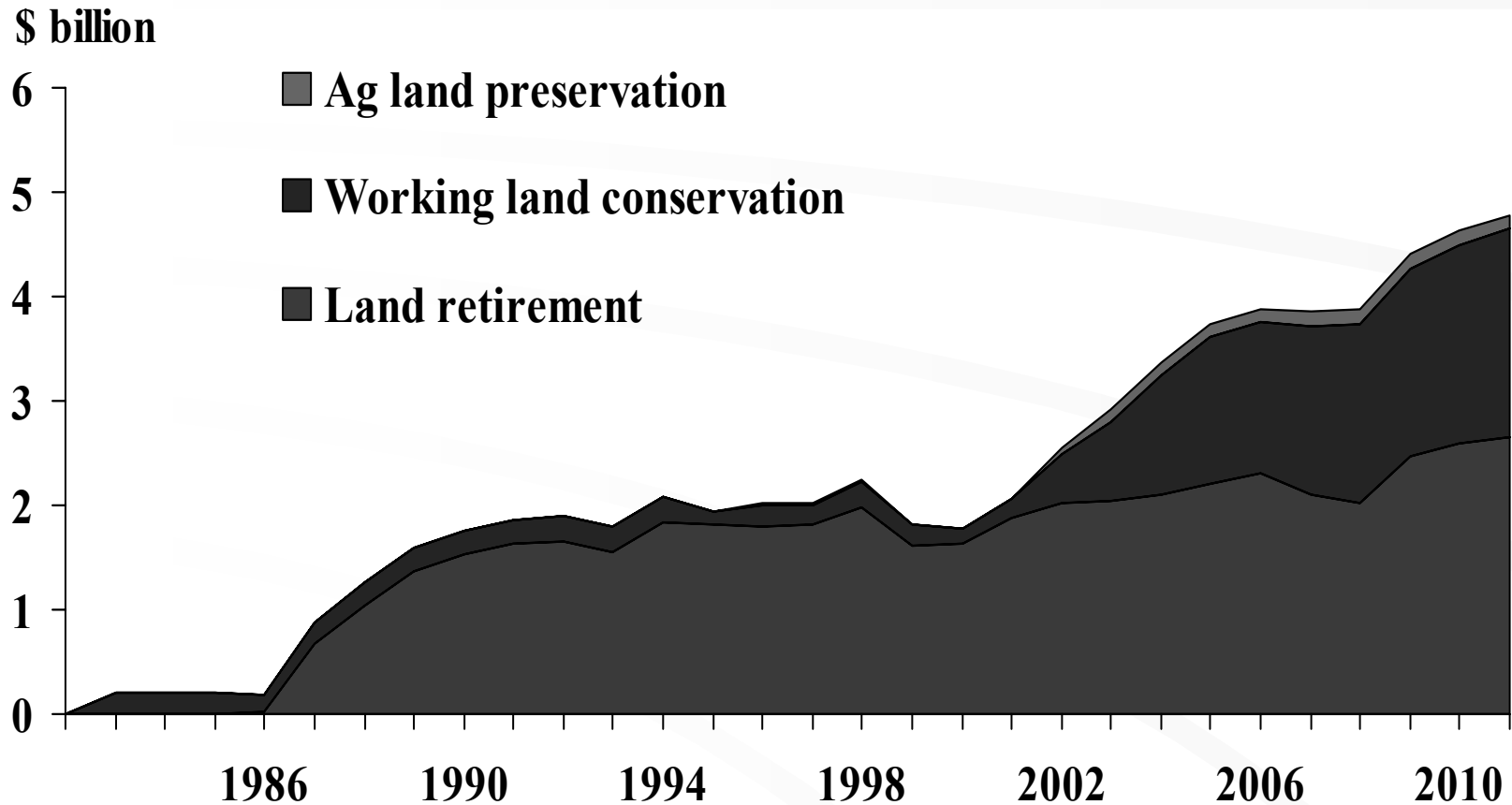
- **Price support with fixed loan rates for beet and cane sugar**
- **Marketing assessments and forfeiture penalty terminated**
- **Inventory management**
  - **Provides authority to impose marketing allotments**
  - **Authorizes product-for-production, pre-planting crop diversion payment in kind program**

# Trade-Related Provisions



- **Export programs**
- **WTO “Circuit Breaker”**
  - **Secretary of Agriculture to adjust spending to meet U.S. commitments under the Uruguay Round Agreement on Agriculture**

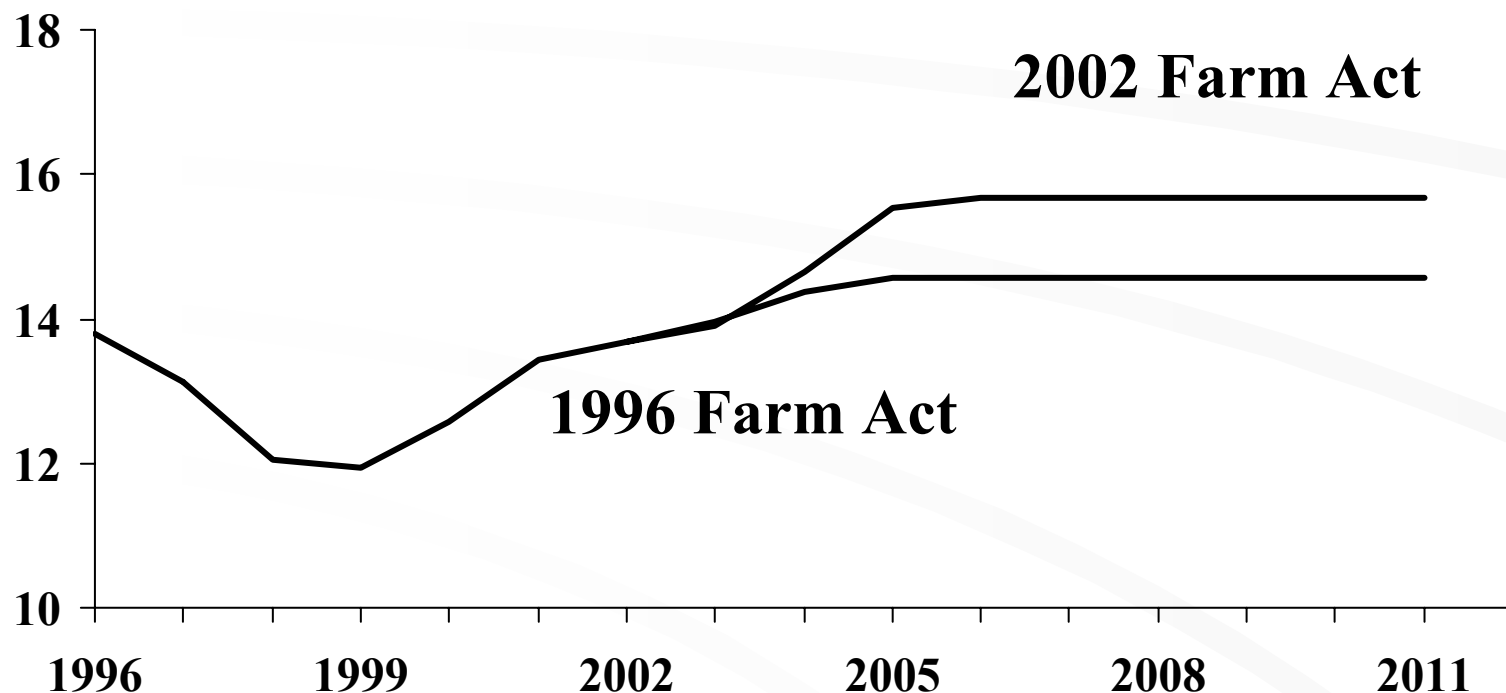
# Conservation funding shifted toward working land



Source: Office of Budget and Policy Analysis, USDA, and Congressional Budget Office

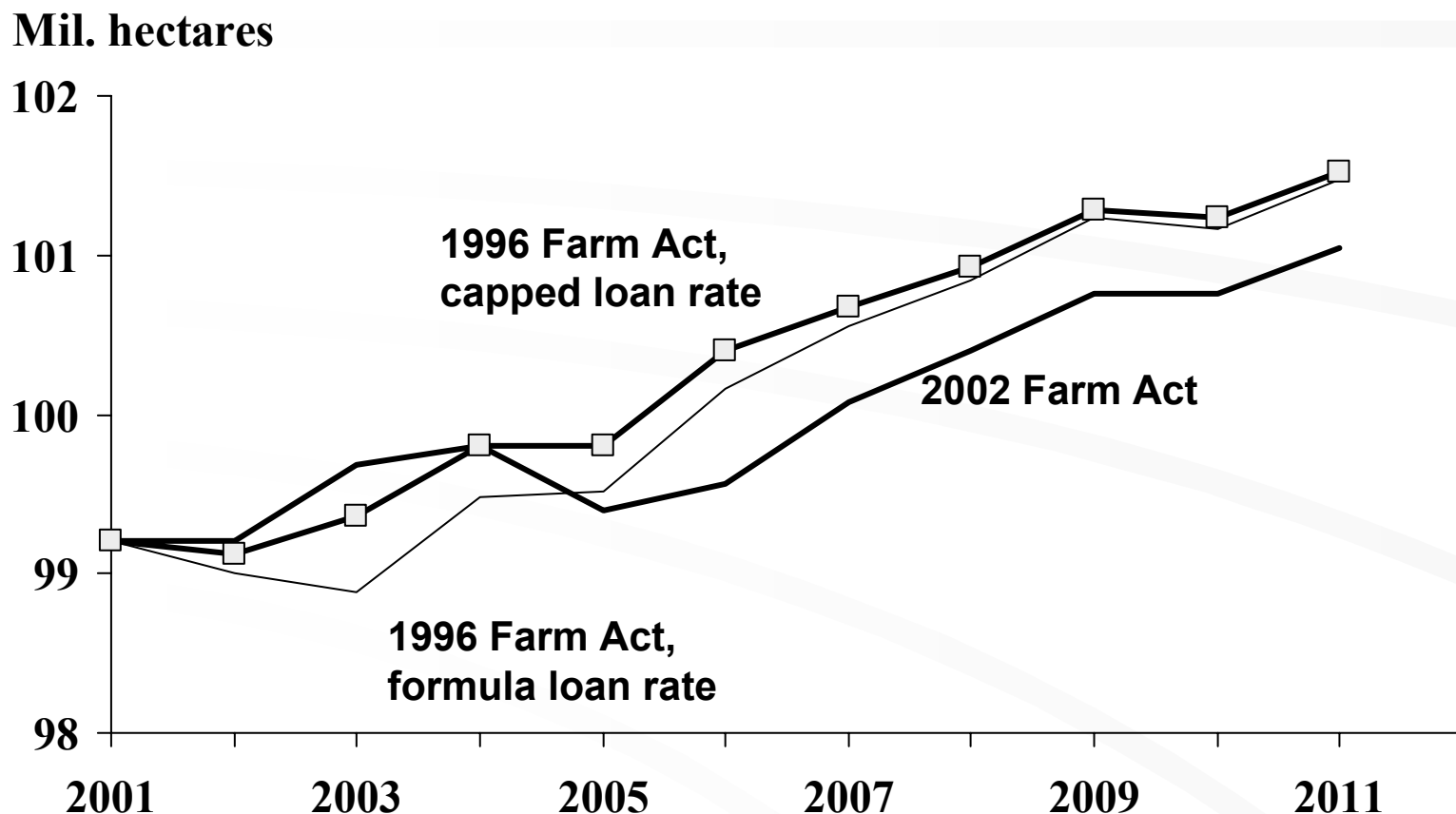
# Conservation Reserve Program Expanded

Mil. hectares



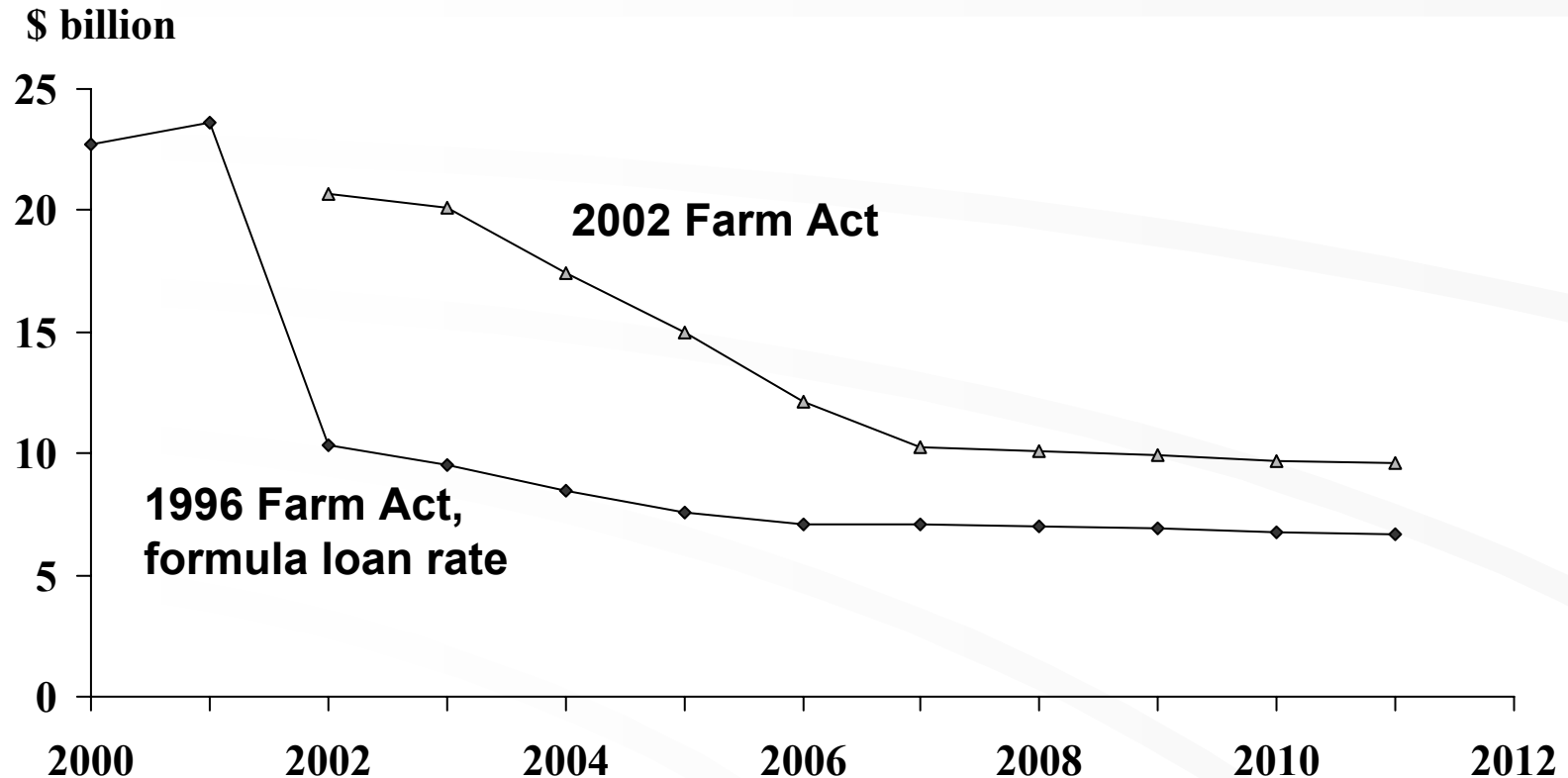
Source: *The 2002 Farm Act: Provisions and Implications for Commodity Markets*, ERS/USDA, AIB 778 (November 2002).

# Planted Area: Eight Major Crops



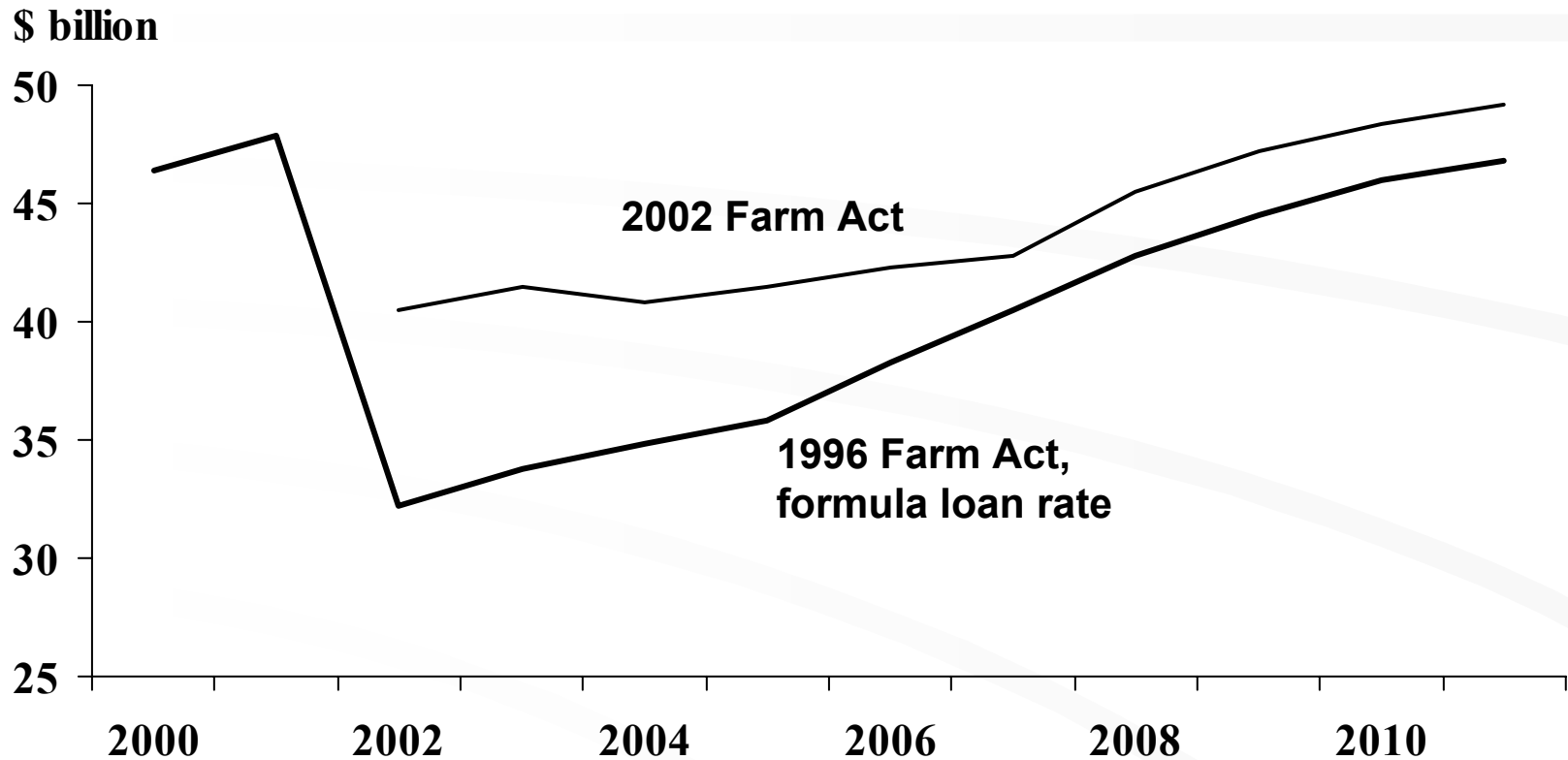
Source: The 2002 Farm Act: Provisions and Implications for  
Commodity Markets, ERS/USDA, AIB 778 (November 2002).

# Government payments



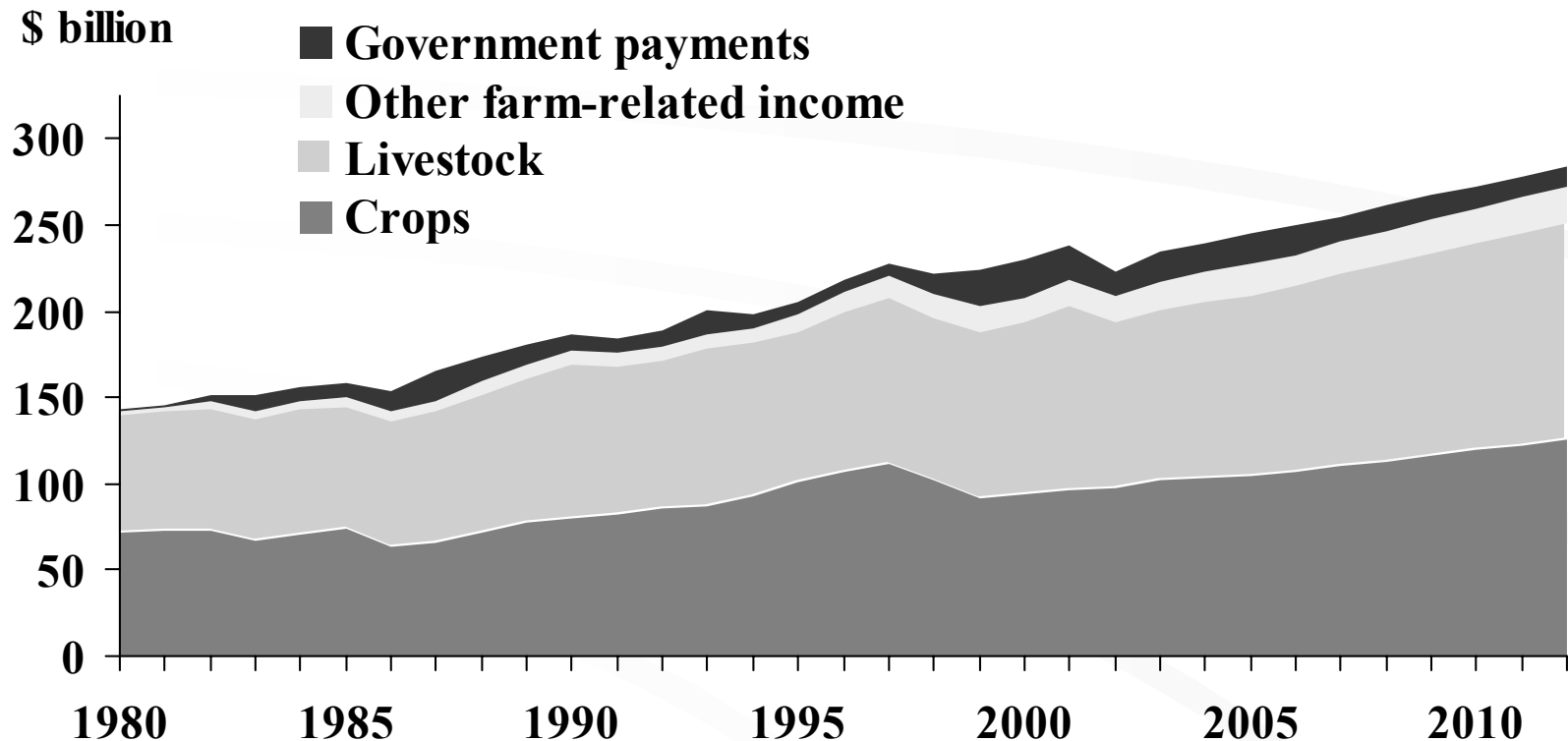
Source: The 2002 Farm Act: Provisions and Implications for  
Commodity Markets, ERS/USDA, AIB 778 (November 2002).

# Net Farm Income



Source: The 2002 Farm Act: Provisions and Implications for  
Commodity Markets, ERS/USDA, AIB 778 (November 2002).

# Government Payments Account for a Small Share of Farm Cash Receipts





# Conclusions

- **Agricultural spending similar to recent years**
- **Production impacts are mostly from**
  - **Marketing loan changes**
  - **Larger Conservation Reserve Program**

# **Additional Resources**

- **USDA's Farm Bill website**  
**[www.usda.gov/farmbill](http://www.usda.gov/farmbill)**
- **Economic Research Service (ERS) web site**  
**[www.ers.usda.gov](http://www.ers.usda.gov)**

**1996 and 2002 Farm Bill side-by-side comparison**

**[www.ers.usda.gov/Features/farmbill](http://www.ers.usda.gov/Features/farmbill)**

**Farm Bill impacts**

**[www.ers.usda.gov/briefing/FarmPolicy](http://www.ers.usda.gov/briefing/FarmPolicy)**